

BAY STATE GAS COMPANY

REPLY BRIEF OF
BAY STATE GAS COMPANY

In its Reply Brief, DOER argues that Bay State's proposed supply planning contingency be rejected and that, instead, Bay State be directed to adopt a design planning standard comparable to that of NSTAR or Keyspan. DOER Reply at 4-6, citing D.T.E. 01-105, D.T.E. 02-12. In response, Bay State notes that the issue of whether the Company's design day standard is appropriate is separate and distinct from the issue of whether the Company should plan to meet some portion of requirements for all firm customers, including grandfathered transportation customers. In the event Bay State's design standard were increased, Bay State would procure additional resources to meet the expected weather conditions reflected in that weather-based standard for the *same* customer requirements as under the current planning environment. That is, with a higher design planning standard, Bay State would not be procuring resources intended to meet the supply needs of grandfathered customers in any way should they return to sales service

or to meet the potential supply-related circumstances that also contribute to the need for the contingency. Thus, DOER's suggested alternative leaves open the possibility that Bay State would face a greater likelihood that if some sizable portion of its grandfathered load attempted to return to default service, Bay State could not meet those customers' requirements with its existing resource commitments. In addition, Bay State does not believe that this proposal would properly allocate cost responsibility.

Bay State also disagrees with DOER's suggestion that the Company's estimates of potential reverse migration are too high. Unlike the establishment of a weather-based design standard, which is based on many years of historical data, predictions of potential reverse migration must be based on limited actual experience. In light of the fact that cited bankruptcies and exiting of the retail business by various marketers has only happened in the past few years, it is not possible to accurately predict through statistics how the market will behave over the long term. Given the many changes that have occurred over time, Bay State does not believe that the ten years of retail migration experience cited by DOER provides for any reliable prediction of future conditions. Certainly, relying on the first six or seven years of this period as the basis for predicting market behavior during the most recent three or four years would have been erroneous. What can be learned from ten years of retail migration is that near-term conditions are very uncertain and a broader range of potential outcomes must be planned for.

DOER is correct in pointing out that Bay State's proposed supply planning contingency would not allow it to meet the entire needs of all customers, including grandfathered customers, without procuring additional resources. However, the suggested planning contingency was designed to balance various factors, including need and cost. Bay State selected the 10% level as one that would allow it to meet a variety of unanticipated events unrelated to weather, which

could increase the requirements -- on top of the level necessary to serve default service and non-grandfathered customers under design day weather conditions -- necessary to serve any portion of its customer base, including default service customers.

Thus, Bay State submits that DOER's proposal would leave unresolved certain key issues. First, Bay State's obligation to serve returning grandfathered customers should be affirmed, so that the Company may undertake its supply planning in a manner consistent with this obligation. Second, the Department should not cast aside a design planning standard that is consistent with industry practice and has been previously accepted. See, Bay State Gas Company, D.P.U. 93-129; Bay State Gas Company, D.T.E. 98-86; Exh. BSG-1, at 29. There is simply no record evidence to support a different planning standard than that currently employed by Bay State. Third, if Bay State were to (1) increase its design planning standard, or (2) implement its supply planning contingency, the question of cost responsibility among customer classes must be resolved. Under a higher design standard, grandfathered customers would not be paying any portion of the increased costs. Under the supply planning contingency Bay State has recommended that all customers including grandfathered customers, are equally responsible for the incremental capacity costs associated with the contingency. Tr. at 11. Based on a 10% contingency, such incremental costs would be less than 1% of total system costs. Exh. DOER 1-31.

Bay State agrees that the level of cost responsibility associated with its supply planning contingency requires some level of judgment based on likely need for the resources. However, Bay State continues to believe that the supply planning contingency best meets the identified planning uncertainties in a manner that is reasonable and fair to all customer segments.

Respectfully submitted,

BAY STATE GAS COMPANY

By its attorney,

A handwritten signature in black ink, reading "John A. DeTore". The signature is written in a cursive, flowing style.

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Dated: July 29, 2003